

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 YEREVAN 000382

SIPDIS

SENSITIVE

DEPT FOR EUR/CACEN AND NP/SC
DOE FOR CHARLES WASHINGTON
USAID FOR EE/W
NRC FOR RAMSEY
PLEASE PASS NNSA FOR DENNIS MEYERS PLEASE PASS USAID FOR
ROBERT ICHORD

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [AM](#)

SUBJECT: ARMENIA WON'T COMMIT TO SHUTDOWN DATE FOR NUCLEAR
POWER PLANT: EU PULLS MONEY OFF THE TABLE

**¶11. (U) SENSITIVE BUT UNCLASSIFIED. PROTECT ACCORDINGLY. NOT
FOR INTERNET DISTRIBUTION.**

SUMMARY

¶12. (SBU) During the February 10 EU-Armenia working group on Armenia Nuclear Power Plant (ANPP), Armenia would not commit to a new closure date for the ANPP and the EU side refused to convene a donor's conference and withdrew its long-standing offer of 100 million euro grant towards replacement capacity. Armen Movsisyan, the Minister of Energy, said that he would only consider a strategy for closing the plant that guaranteed some diversity of electricity supply for Armenia and did not result in a significant rise in electricity tariffs. END SUMMARY.

ARMENIA IS WILLING TO OPERATE ANPP UNTIL 2015, MAYBE LONGER

¶13. (SBU) The European Commission's side, led by Hugues Mingarelli, Director of the Directorate for External Relations with Eastern Europe, sought to get a commitment on a new closure date for the ANPP and a plan for assistance in order to build replacement capacity for the plant. The Armenian side, which comprised Armen Movsisyan, the Minister of Energy, Karen Chshmarityan, the Minister of Trade and Economic Development, and Ruben Shugaryan, Deputy Foreign Minister, had bigger ideas. First, the Armenian side did not concede that the ANPP was inherently unsafe. ANPP's head, Gagik Markosyan, gave a very detailed presentation on recent safety upgrades. (Note: US DOE programs in combination with those of the EU are responsible for nearly all the upgrades mentioned. End Note.) They said that the plant could be safely operated until 2015, and could be operated for longer with an extension upgrade common for similar plants.

HAPPINESS IS MANY PIPELINES

¶14. (SBU) While Minister Movsisyan was careful to avoid saying that this was their plan, all GOAM representatives expressed the view that any acceptable agreement to close the plant early must keep electricity prices stable and not reduce diversity in Armenia's energy sources. The Armenian's were concerned by the findings of the EU consultant who said that Armenia has enough existing capacity to close the plant and not have shortages in the near term. This was in part on the agreed grounds that this would then lead to 85 percent of their electricity supply depending on fuel for gas-fired generation plants supplied via the high-pressure pipeline through Georgia. The parties agreed that the pipeline is in poor condition and needs investment of USD 140 million, most of which would be in Georgia. While the GOAM did include among their strategic investments the proposal for a new combined cycle thermal plant proposed by the Japanese, they did not propose this to be considered for use of the EU funds to replace ANPP. Instead, they outlined a USD 800 million energy strategy that went far beyond the scope of just replacing ANPP's capacity.

¶15. (U) Background. Armenia produced 5,188 GWh of electricity last year, and consumption has remained generally constant since 1999 (normalized for last year's cold winter), although GNP has grown significantly. Forecasts do not, therefore, link GNP growth directly to growth in energy consumption. Future electricity demand will increase, but probably modestly. The current installed capacity of 3,157 MW, comprising nuclear (440 MW), hydro (961 MW) and gas-fired (1756 MW) generation units

significantly exceeds the national peak demand, allowing Armenia to export energy. In 2003, hydro accounted for 38 percent of total generation, thermal plants for 27 percent and ANPP for 35 percent. Were the ANPP to close tomorrow, installed capacity of the other generation plants could meet Armenia's electricity demand now and in the near future, but the energy would be much more expensive. Closing the ANPP would raise variable costs by USD 30-45 million the first year and total costs by USD 80-90 million (or 80 percent) per year.

PIPE DREAMS

16. (SBU) In outlining Armenia's energy strategy, the Minister of Energy said Armenia's first energy priority was to build a pipeline with Iran, costing USD 120 million of Armenian investment. (Note: This issue, which we believe is not economically viable, will be addressed septel. End Note.) The strategy list also included a new 600 MW nuclear reactor and a USD 400 million project to develop wind energy resources among others, but the ministry did not propose any way to finance these alternative projects. Comment: While all these projects could plausibly meet Armenia's supply and diversity needs, none are financially feasible under current price regimes. The Regulatory Commission announced a tariff of 7 cents/kWh for wind-generated electricity, more than twice the tariff from other sources. Although the high tariff will encourage investment in small wind projects (40 MW) currently on the table, the cost to consumers at this tariff would be prohibitive if wind-generated electricity accounted for a more substantial share of overall production. While ultimately Armenia may find a way to finance one or more of these projects as a means to ensure diversity of energy supply, the government's plan also hints at a possible step backwards. If it involves heavy government involvement in a new energy generation projects, it is at odds with the stated policy of moving to complete privatization and create a regulatory framework that allows private industry and the market to decide on the cheapest means of producing electricity. End Comment.

EU MONEY OFF THE TABLE

17. (SBU) The EU noted that the Armenians clearly had now articulated energy security concerns that went well beyond their previous closure commitment and Mingarelli concluded that this meant that the EU would need to reflect on and review its previous commitment of support for replacement generation. They would now place future plans for energy sector support (if any) in the context of overall development of the EU-Armenian relationship. He indicated consideration of next steps would be placed in the broader context of the EU-Armenia Partnership and Cooperation Committee, which will next meet in June 2004. Comment: Despite the withdrawal of the EU offer, the Armenians got what they wanted. They now have no obligation to close the ANPP by any date certain. They have reframed the issue of an early closure in terms of their overall energy diversification problem, raising the stakes to include a project that will maintain their current production diversity but would not be feasible with private investment alone. In the scenario where large-scale international assistance is not forthcoming, they have bought themselves a decade to worry about diversity and security of energy supply in a post ANPP Armenia. One key issue the GOAM is studiously avoiding is financing ANPP shutdown costs, a bill that will come due at a yet-to-be-determined but inevitable future date. The EU's withdrawal has left an opportunity for the US to propose, alone or in concert with the EU, new solutions to Armenia's energy problem.

ORDWAY